

CHRISTOPHER J. DODD, CONNECTICUT, CHAIRMAN

TIM JOHNSON, SOUTH DAKOTA
JACK REED, RHODE ISLAND
CHARLES E. SCHUMER, NEW YORK
EVAN BAYH, INDIANA
THOMAS R. CARPER, DELAWARE
ROBERT MENENDEZ, NEW JERSEY
DANIEL K. AKAKA, HAWAII
SHERROD BROWN, OHIO
ROBERT P. CASEY, JR., PENNSYLVANIA
JON TESTER, MONTANA

RICHARD C. SHELBY, ALABAMA
ROBERT F. BENNETT, UTAH
WAYNE ALLARD, COLORADO
MICHAEL B. ENZI, WYOMING
CHUCK HAGEL, NEBRASKA
JIM BUNNING, KENTUCKY
MICHAEL CRAPO, IDAHO
JOHN E. SUNUNU, NEW HAMPSHIRE
ELIZABETH DOLE, NORTH CAROLINA
MEL MARTINEZ, FLORIDA

SHAWN MAHER, STAFF DIRECTOR
WILLIAM D. DUHNKE, REPUBLICAN STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

March 19, 2007

John M. Reich
Director
Office of Thrift Supervision
700 G Street, NW
Washington, DC 20552

Dear Mr. Reich:

As you know, I am very concerned about the impact that the proliferation of exotic and subprime hybrid adjustable rate mortgages (ARMs) are having on many homeowners around the nation, as well as on the safe and sound operations of many state- and federally-regulated lending institutions. I congratulate you on your joint proposal to extend the key elements of the exotic mortgage guidance to subprime ARMAs as a way to address these concerns. I intend to submit a more extensive comment on that proposal at a later date.

There is clearly a crisis in the mortgage market today; 8 of the top 25 subprime lenders are either out of business or are no longer operating independently, and a number of other large subprime lenders have suffered extensive losses. According to the Mortgage Bankers Association's (MBA) "National Delinquency Survey," the seasonally-adjusted rate of loans entering the foreclosure process went up 15.4 percent from the previous quarter (to 0.54 percent), reaching a record high in the 37-year history of the MBA's Survey. Not surprisingly, the problems are concentrated in the subprime market. However, default and foreclosure rates are also increasing across the credit spectrum, and there are numerous indications and reports that the alt-A market is starting to experience the same kinds of problems we are currently seeing in the subprime market. This also has serious implications for the housing market; significant additional foreclosures could drive home prices down further.

This crisis has been in the making for several years, and, in my view, it has taken far too long for the regulators to act. For example, over nine months passed between the time the regulators first proposed new guidelines to require common-sense underwriting requirements for exotic mortgages with significant payment shock risks, mortgages such as interest-only and negatively amortizing option-ARM loans. And, despite the significant similarities with certain products, it took another six months to propose such protections for subprime borrowers. We still await final action on the latter proposal.

While the financial cost of this problem is a significant concern, we must also keep in mind the impact that these increased default and foreclosure rates have on homeowners. As former Federal Reserve Board member Edward Gramlich put it recently, "we could have real

carnage for low-income borrowers.”

These disturbing trends raise a number of important issues, which the Committee will continue to examine in a hearing on Thursday, March 22, entitled, “Mortgage Market Turmoil: Causes and Consequences,” at which we would like you or a member of your staff to testify. We would like your testimony to address these questions:

What was the origin and evolution of the explosion in exotic mortgages and subprime hybrid ARMs? When did your agency learn and become concerned about the use of exotic and subprime mortgages? What brought these concerns to your attention? On what data were these concerns based?

Please provide data on subprime and exotic mortgages including volume (year-by-year) over the past 5 years, the composition of those mortgages (hybrid adjustable rate, interest only, and option payment ARMs), and the purpose of the mortgages (refinance, first time homebuyers, other homebuyers).

What were the applicable supervisory standards at the time? Were these standards inadequate, or was the problem a lack of enforcement? Describe the number and type of enforcement actions, if any, taken under these standards with regards to the use of exotic and subprime mortgages.

What role has securitization played in the development and growth of these mortgage products?

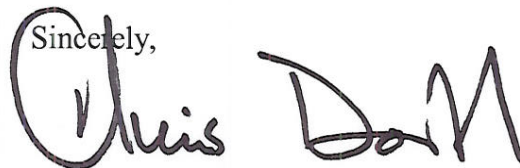
The regulators have taken or proposed important steps to limit the harm that some of these products can cause in the future through new guidance. What actions do you recommend for people who may be holding these unsustainable mortgages today so that they can stay in their homes and avoid foreclosure?

This Committee has received reports over many years about predatory lending abuses in the subprime market. We understand that many consumer groups have also raised concerns, in many cases with regulatory agencies about such practices. Can you explain what actions, if any, you have taken in response to these complaints?

For purposes of the Committee Record and printing, the written statement must be submitted in electronic form by either email to Jonathan_Miller@banking.senate.gov and Liz_Hackett@banking.senate.gov, or on a CDRW in WordPerfect (or other comparable program) format and typed double spaced. Also, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. Your statement should be sent no later than 24 hours prior to the hearing. You should expect to have approximately 5 minutes to give your testimony at the hearing. Your full statement will be made part of the hearing record.

If you have any questions regarding this hearing, please contact Jonathan Miller at 202-224-7391.

Thank you for your cooperation.

Sincerely,
A handwritten signature in dark ink, appearing to read "Chris Dodd". The signature is fluid and cursive, with the first name "Chris" and the last name "Dodd" clearly distinguishable.

Senator Christopher J. Dodd

CHRISTOPHER J. DODD, CONNECTICUT, CHAIRMAN

TIM JOHNSON, SOUTH DAKOTA
JACK REED, RHODE ISLAND
CHARLES E. SCHUMER, NEW YORK
EVAN BAYH, INDIANA
THOMAS R. CARPER, DELAWARE
ROBERT MENENDEZ, NEW JERSEY
DANIEL K. AKAKA, HAWAII
SHERRON BROWN, OHIO
ROBERT P. CASEY, JR., PENNSYLVANIA
JON TESTER, MONTANA

RICHARD C. SHELBY, ALABAMA
ROBERT F. BENNETT, UTAH
WAYNE ALLARD, COLORADO
MICHAEL B. ENZI, WYOMING
CHUCK HAGEL, NEBRASKA
JIM BUNNING, KENTUCKY
MICHAEL CRAPO, IDAHO
JOHN E. SUNUNU, NEW HAMPSHIRE
ELIZABETH DOLE, NORTH CAROLINA
MEL MARTINEZ, FLORIDA

SHAWN MAHER, STAFF DIRECTOR
WILLIAM D. DUHNKE, REPUBLICAN STAFF DIRECTOR AND COUNSEL

United States Senate

COMMITTEE ON BANKING, HOUSING, AND
URBAN AFFAIRS

WASHINGTON, DC 20510-6075

March 19, 2007

Joseph A. Smith, Jr.
North Carolina Commissioner of Banks
C/O Neil Milner
President and CEO
Conference of State Bank Supervisors
1155 Connecticut Ave., 5th Floor
Washington, DC 20036-4306

Dear Mr. Smith:

As you may know, I am very concerned about the impact that the proliferation of exotic and subprime hybrid adjustable rate mortgages (ARMs) are having on many homeowners around the nation, as well as on the safe and sound operations of many state- and federally-regulated lending institutions. I congratulate you on the position of the Conference of State Bank Supervisors (CSBS) in agreeing to adopt both the exotic mortgage guidance and the recently proposed guidance on subprime hybrid adjustable rate loans (ARMs) as a way to address these concerns.

There is clearly a crisis in the mortgage market today; 8 of the top 25 subprime lenders are either out of business or are no longer operating independently, and a number of other large subprime lenders have suffered extensive losses. According to the Mortgage Bankers Association's (MBA) "National Delinquency Survey," the seasonally-adjusted rate of loans entering the foreclosure process went up 15.4 percent from the previous quarter (to 0.54 percent), reaching a record high in the 37-year history of the MBA's Survey. Not surprisingly, the problems are concentrated in the subprime market. However, default and foreclosure rates are also increasing across the credit spectrum, and there are numerous indications and reports that the alt-A market is starting to experience the same kinds of problems we are currently seeing in the subprime market. This also has serious implications for the housing market; significant additional foreclosures could drive home prices down further.

This crisis has been in the making for several years, and, in my view, it has taken far too long for the regulators to act. For example, over nine months passed between the time the regulators first proposed new guidelines to require common-sense underwriting requirements for exotic mortgages with significant payment shock risks, mortgages such as interest-only and negatively amortizing option-ARM loans. And, despite the significant similarities with certain products, it took another six months to propose such protections for subprime borrowers. We still await final action on the latter proposal.

While the financial cost of this problem is a significant concern, we must also keep in mind the impact that these increased default and foreclosure rates have on homeowners. As former Federal

Reserve Board member Edward Gramlich put it recently, "we could have real carnage for low-income borrowers."

These disturbing trends raise a number of important issues, which the Committee will continue to examine in a hearing on Thursday, March 22, entitled, "Mortgage Market Turmoil: Causes and Consequences," at which we would like you to testify. We would like your testimony to address these questions:

What was the origin and evolution of the explosion in exotic mortgages and subprime hybrid ARMs? When did state regulators learn and become concerned about the use of exotic and subprime mortgages? What brought these concerns to your attention? On what data were these concerns based?

Many of the largest subprime lenders are overseen by state regulators. Some of these same lenders made many of the exotic and subprime hybrid ARMs that are leading to the serious default and foreclosure numbers that have been reported. Did state regulators monitor the growth of these loans? What steps, if any, did state regulators take in response to the increase in this lending?

What challenges do state regulators face in overseeing large national lenders that are not federally-regulated?

What role has securitization played in the development and growth of these mortgage products?

State and federal regulators have taken or proposed important steps to limit the harm that some of these products can cause in the future through new guidance. What actions do you recommend for people who may be holding these unsustainable mortgages today so that they can stay in their homes and avoid foreclosure?

This Committee has received reports over many years about predatory lending abuses in the subprime market. We understand that many consumer groups have also raised concerns, in many cases, with state regulators about such practices. Can you explain what actions, if any, state regulators have taken in response to these complaints?

For purposes of the Committee Record and printing, your written statement must be submitted in electronic form by either email to Jonathan_Miller@banking.senate.gov and Liz_Hackett@banking.senate.gov, or on a CDRW in WordPerfect (or other comparable program) format and typed double spaced. Also, two ORIGINAL copies of the statement must be included for the printers, along with 73 copies for the use of Committee members and staff. Your statement should be sent no later than 24 hours prior to the hearing. You should expect to have approximately 5 minutes to give your testimony at the hearing. Your full statement will be made part of the hearing record.

If you have any questions regarding this hearing, please contact Jonathan Miller at 202-224-7391.

Thank you for your cooperation.

Sincerely,

A handwritten signature in dark ink, appearing to read "Chris Dodd". The signature is fluid and cursive, with the first name "Chris" and the last name "Dodd" clearly distinguishable.

Senator Christopher J. Dodd